

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6710

BILL NUMBER: HB 1118

DATE PREPARED: Jan 1, 2002

BILL AMENDED:

SUBJECT: Public Power and Finance Authority.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill creates the Public Power and Finance Authority. It provides that the authority may sell electricity to customers throughout Indiana (other than investor-owned utilities) at cost. The bill creates an Energy for Jobs program, which retains jobs in Indiana through the donation of electricity. The bill requires the Authority to use project labor agreements. The bill repeals alternative utility regulation, but retains the Regulatory Flexibility Committee.

Effective Date: July 1, 2002.

Explanation of State Expenditures: *Public Power and Finance Authority:* The only direct impacts on state expenditures caused by the creation of the Public Power and Finance Authority (PPFA), a body corporate and politic, are expected to be administrative and covered using existing resources or revenues provided for in the bill.

All expenditures made by the PPFA would be financed through bonds issued and backed by the Authority or through revenue generated through the sale of electricity.

IURC: Any plants proposed and built by the PPFA would be under the jurisdiction of the IURC. The bill also requires the PPFA to petition the IURC for approval before constructing a facility. These provisions could require the IURC to conduct more hearings, thereby increasing its administrative burden.

The bill also establishes a Clean Coal Technology Program within the PPFA. The Authority would be required to obtain a certificate of public convenience and necessity from the IURC before implementing the program. This provision could also require the IURC to conduct more hearings and additional research.

The repeal of alternative utility regulation (IC 8-2-2.5) could have a minimal impact on the administrative costs of the IURC if it requires the Commission to hold additional hearings to address changes to rates and

plans established using the authority currently granted under IC 8-1-2.5.

The impact of these provisions on the Commission is expected to be covered using existing staff and resources.

DNR: The bill requires the Department of Natural Resources (DNR) to make a recommendation to the IURC regarding any powerplant proposed by the PPFA based on the plant's planned use of and potential impact on water resources. The bill allows the Department to make its recommendation based on a specified assessment provided by the Authority or through the Department's own activities. The impact of this bill on the DNR will be limited by the number of plants that petition the IURC and on the specific action taken by the Department.

Department of Commerce: The Department of Commerce may be required to consult with the PPFA regarding the Clean Coal Technology Program proposed in the bill. Expenditures by the Department are expected to be covered using existing staff or paid for using the Authority's resources.

Regulatory Flexibility Committee: The bill requires the Regulatory Flexibility Committee to study the effect of the Authority's entry into the electric utility industry in Indiana. The impact of this provision on the Commission, the Legislative Council, and the Legislative Services Agency will be negligible.

Explanation of State Revenues: The bill's net impact on the state's revenue is indeterminable, as it will depend on the specific actions taken by the Authority. However, if the PPFA constructs powerplants and implements the Energy for Jobs program established in the bill, the bill could have both positive and negative impacts on the state's revenue.

PPFA: While the PPFA and any property it acquires will be exempt from state and local taxes, the income of the Authority's employees would be subject to the state's Individual Adjusted Gross Income Tax. If PPFA employees would have otherwise been unemployed or employed at lower wages, state and local income taxes would increase. Additionally, increases in income are often related to increases in consumer expenditures. If PPFA employees used additional income to purchase more sales taxable goods, state Sales Tax revenue would increase.

Energy for Jobs: The establishment of the PPFA's Energy for Jobs program could cause both increases and decreases in the state's revenue.

Potential Sources of Increases in State Revenue: The program would allow the PPFA to sell energy at cost to firms that are considering relocating outside of Indiana or to firms that can demonstrate that they will create additional jobs in Indiana. If the program is able to prevent firms from moving out of state, reductions in the state's revenue from the Corporate Gross Income Tax, the Corporate Adjusted Gross Income Tax, and the Corporate Supplemental Net Income Tax could be avoided. Additionally, if the program prevents the loss of Indiana jobs to other locations, it could avert losses of Income and Sales Taxes paid by a firm's employees. Similarly, if the Energy for Jobs program encourages firms to relocate or expand in Indiana, the program could increase the revenue the state receives from the various Corporate Taxes. Likewise, if more jobs are created, revenue from the state's Income and Sales Tax would also increase.

Potential Sources of Decreases in State Revenue: The state generally imposes a Sales Tax on the sale of electricity. However, if it is sold to nonprofit agencies, for use in industrial manufacturing, or to other power companies for resale, the sale is exempt from the Sales Tax. Since the Sales Tax is assessed on the

price a consumer pays for electricity, lower prices would generate less Sales Tax revenue. If the Authority makes taxable sales of electricity at lower prices than would otherwise be available to consumers absent this bill, the state could experience a reduction in Sales Tax revenue.

The Authority's sale of energy could also impact the financial performance of the state's tax paying utilities, resulting in a potential loss of Corporate Tax revenue from these firms. If the Authority's presence in the marketplace lowers the price of electricity that these firms may charge, or if the Authority sells electricity to customers that would have otherwise been served by taxpaying utilities, tax revenue from the state's Corporate Taxes could be negatively impacted. Additionally, if these firms cut jobs as a result of the Authority's competition, Income and Sales Tax revenue would be reduced.

Revenue from individual income and the corporate taxes is deposited in the state General Fund. Sales Tax revenue is deposited in the state General Fund (59.03%), the Property Tax Replacement Fund (40%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Fund (0.04%).

As stated above, the bill's net impact on the state's revenue is indeterminable and will depend on the specific actions taken by the Authority.

Explanation of Local Expenditures:

Explanation of Local Revenues: If the PPFA's Energy for Jobs program encourages new businesses to relocate to Indiana or if the program helps prevent businesses from moving out of state, local taxing districts could preserve or grow their assessed valuation. However, if the program causes taxpaying utilities to downsize, close, or relocate, the assessed valuation of local taxing districts could be reduced.

The proposal could also cause an indeterminable impact on counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT).

State Agencies Affected: Indiana Utility Regulatory Commission; Office of the Utility Consumer Counselor; Department of Natural Resources; Department of Commerce; Legislative Council; Legislative Services Agency.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Indiana Utility Regulatory Commission, *2000-2001 Annual Report*.